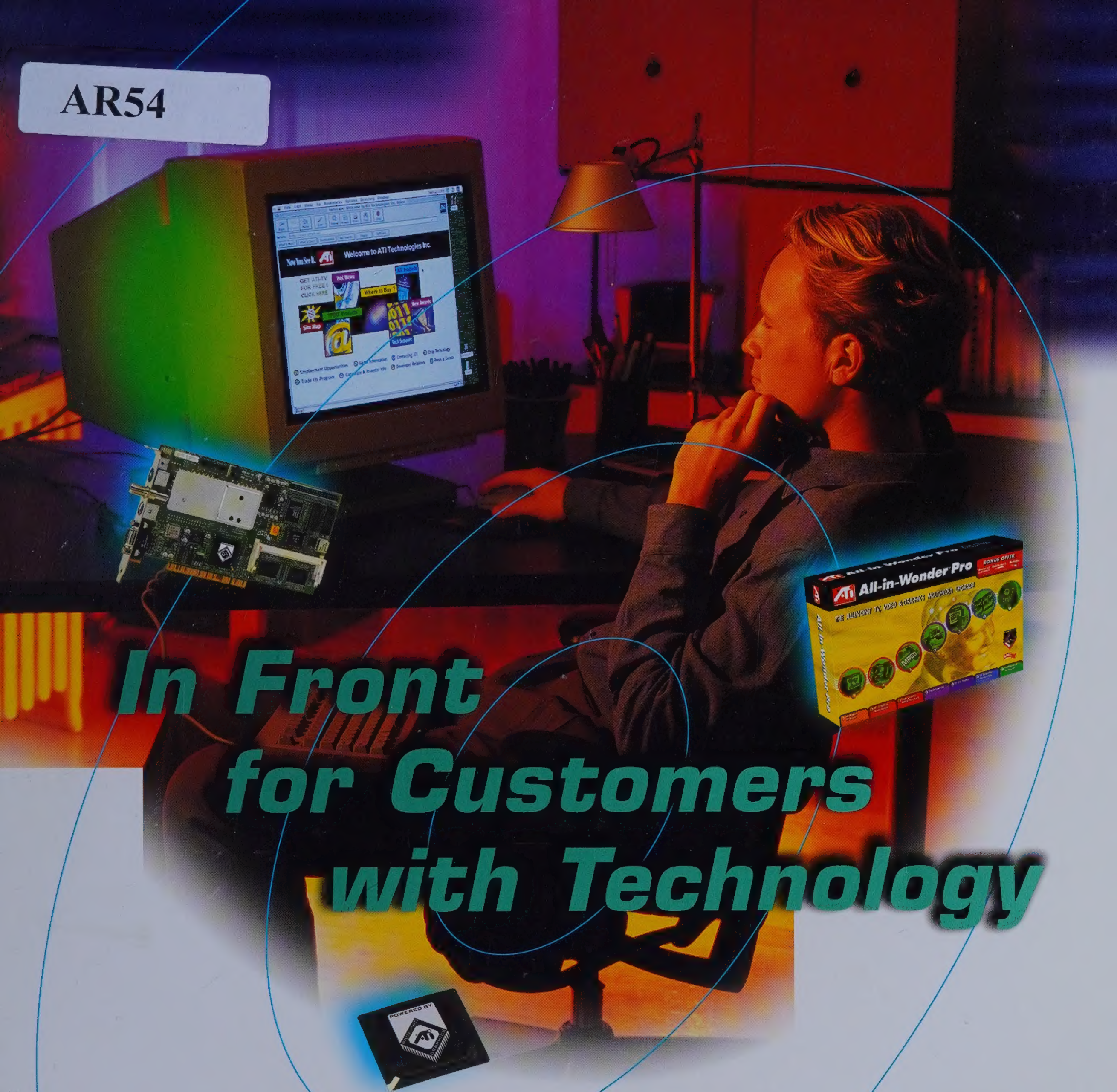

In Front for Customers with Technology

1997 Annual Report

Corporate Profile

Founded in 1985, ATI Technologies Inc. is a world leader in supplying affordable, high-quality products for the personal computer (PC) and Macintosh markets. These products include graphics accelerator components, graphics accelerator boards, as well as multimedia hardware and software.

ATI sells more graphics components and boards, combined, than any other single company in the world. ATI employs more than 1,000 people with offices in Canada, the United States, Germany, Ireland, the United Kingdom and Japan. ATI works with strategic technology partners, distributors, retailers and resellers worldwide.

ATI markets globally and is localized in 19 languages

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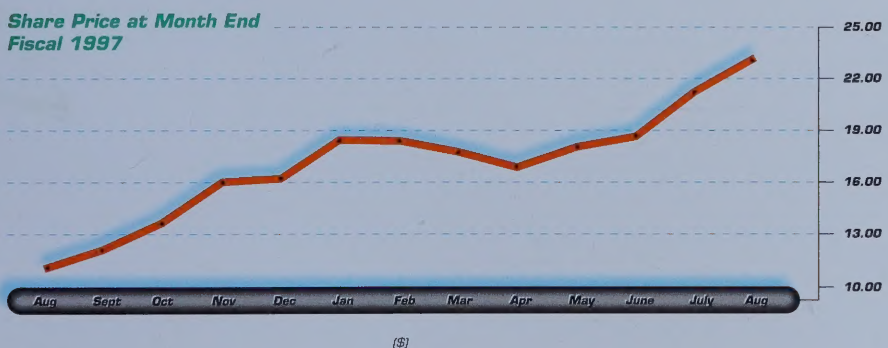
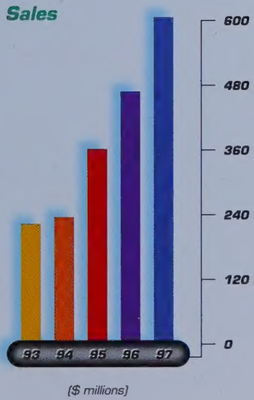
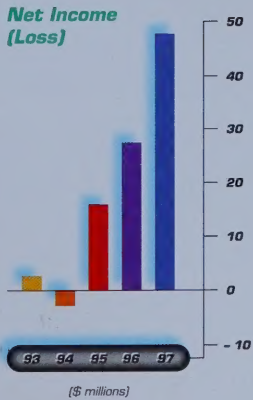
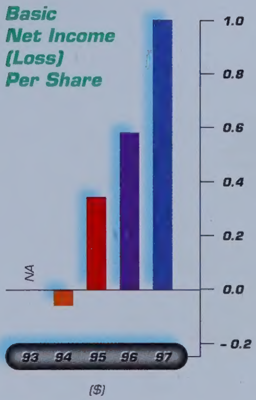
Financial Highlights

Thousands of Canadian dollars, except per share amounts	1997	1996	% Change
Income Statement			
Sales	$ 602,839	$ 466,598	29.2 %
Net income	$ 47,689	$ 27,347	74.3 %
Net income per share			
Basic	$ 1.00	$ 0.58	72.4 %
Fully diluted	$ 0.94	$ 0.56	67.8 %
Balance Sheet			
Working capital	$ 152,435	$ 111,470	36.7 %
Total assets	$ 291,735	$ 208,484	39.9 %
Shareholders' equity	$ 206,000	$ 148,149	39.0 %
Other			
Current ratio	2.89:1	2.97:1	(2.6)%
Cash flow from operations	$ 28,534	$ 61,503	(53.6)%
Return on equity	23.1%	20.5%	12.6 %
Closing share price	$ 23.30	$ 11.00	111.8 %
Market capitalization	$ 1,130,027	$ 522,458	116.3 %









1997 Operating Highlights

OEM Design Wins

- Apple – consumer market – ***Best price, features and performance***
- Compaq – consumer market – ***AGP and SoftDVD***
- Dell – commercial market – ***AGP performance and time-to-market***
- Gateway 2000 – commercial and consumer markets – ***Rich 3D, fast 2D and video graphics acceleration***
- Hewlett Packard – consumer market – ***Best price, features and performance***
- Sony Electronics – consumer market – ***Convergence PC solution***

ATI is now doing business with Ten of the Top Ten OEMs: Acer, Apple, Compaq, Dell, Fujitsu, Gateway 2000, Hewlett Packard, IBM, Packard Bell/NEC and Toshiba.

Retail Wins

- *Best Buy*
- *Computer City*
- *CompUSA*
- *Egghead*
- *Fry's*

These leading retailers now carry ATI products in more than 600 locations in the United States.

First-to-Market Achievements

- ***Full AGP solution***
- ***3D notebook chip***
- ***DVD hardware-assisted solutions***
- ***Macintosh motherboard product***

ATI's core technology competencies, market vision and streamlined processes keep ATI in front.

Message to Shareholders

K.Y. Ho
President and CEO

Fiscal 1997 was another outstanding year for ATI Technologies Inc. (ATI). First, for the third consecutive year ATI announced record results and reported earnings growth of greater than 70%. Second, ATI achieved a number of market and industry "firsts" including shipping the only 3D graphics accelerator to unleash the full potential of Intel's Accelerated Graphics Port (AGP). And third, ATI's products received rave reviews and countless awards from all the leading industry publications.

Another key measure of our success was the greater presence of ATI products in both the Original Equipment Manufacturer (OEM) and retail markets. During the year we achieved our fiscal 1997 goal of establishing ATI products in all Ten of the Top Ten PC manufacturers. The Company also increased its presence in the retail market by establishing the ATI brand name in more than 700 stores, occupying shelf space in five of the largest PC retailers in North America.

The Year in Review

Financial Accomplishments

Building upon our excellent track record of the past few years, ATI achieved record-breaking results in several areas:

- Sales increased 29% over fiscal 1996. This marks the first time sales have broken the half a billion dollar threshold with revenues of $602.8 million;
- For the third consecutive year, year-over-year net income climbed over 70% to $47.7 million. Net income per share also rose over 70%, to $1.00 per share, compared with $0.58 per share in the prior year. Both sales and earnings levels are historic Company records;
- Another Company first was reached with gross margins. For fiscal 1997 ATI achieved a 32.1% gross margin and in the fourth quarter set a record at 35.7%;
- Market capitalization surged to over $1.0 billion.

Improving Productivity

Over the past year, we have made remarkable progress in lowering costs and enhancing product quality. Our Customer Owned Tooling (COT) program has proven to be a successful initiative in this regard. The net result of greater control over the component development and manufacturing cycle has been to: shorten lead times from initial order through to final shipment; reduce costs; increase manufacturing flexibility; and, improve product quality. The success of this strategy is supported in our recent history of gross margins. Over the last nine quarters we have steadily improved gross margin every quarter, rising from 23.6% in Q4 1995 to 35.7% in Q4 1997.

ATI remains committed to a multisourcing strategy for wafer and foundry supply. This forward-looking strategy allows ATI to continue its seamless production of components in the case of a shortage in any particular fab. We currently source all of our production from United Semiconductor Corporation (USC) and SGS Thomson. Recently, a fire broke out at one of the fab plants expected to be used by ATI. While we had plans to use this facility next year it was intended only as an alternate source of wafer supply. Therefore, ATI will not be affected by the delay in rebuilding the fire-damaged foundry. Moreover,

prior to the fire ATI had begun qualification of a third foundry in order to support our aggressive growth plans for 1998.

Leading the Way

Components – ATI invests a lot of time and energy to maintain a leading position in a highly competitive market. Since the Company's inception in 1985, innovation has been our primary driving force. Year-after-year we strive to concurrently meld the complexities of new product development and the sophistication of new technologies, to produce the best possible solution for our customers. This year was no exception.

For example, ATI led through innovation by developing our RAGE technology and creating a new graphics accelerator – RAGE PRO – which sets the standard for 2D, 3D and video performance for the new generation of AGP graphics accelerators and advanced processors such as the Pentium II. Augmenting the RAGE PRO technology, ATI announced its solution for Digital Versatile Disc (DVD). With ATI leading the way, this chip was the first graphics accelerator to ship with hardware-assisted motion compensation for software DVD.

ATI designs, manufactures and markets innovative and award-winning graphics and multimedia solutions for personal computers.

The ImpacTV2 chip enhances ATI's first generation ImpacTV, the technology that transformed the PC instantly into an effective entertainment and presentation tool. With a small footprint ideal for motherboard designs, ImpacTV2 exceeds the Microsoft PC'98 specification and allows for the simultaneous display of images on a TV and PC monitor. ATI is committed to enabling mainstream users to enjoy the advantages of the convergence of the PC and TV. Utilizing the capabilities of our ImpacTV technology and creating the ATI-TV tuner board, ATI has not only allowed the user to take the PC to a large-screen TV but can now bring the TV to the PC.

Early this year, we announced the world's first 3D LCD accelerator. The RAGE LT provides users of laptops, as well as emerging applications such as desktop flat panel monitors and LCD panel projectors, with a full range of features and a no-compromise level of performance. Previously, these performance features were achievable only on desktop computers. We believe that the laptop or portables segment of the PC market represents a significant growth opportunity for ATI.

Boards – Capitalizing on the increased demand from the retail and OEM markets, ATI announced several new board-level products in 1997. Shipping earlier in the year, the award-winning 3D XPRESSION+PC2TV and the 3D PRO TURBO+PC2TV products, were followed more recently by the XPERT@PLAY – the gamer's answer to 2D, 3D and DVD video acceleration – and the XPERT@WORK – the corporate and business users ultimate productivity tool. In July, 1997 ATI announced a new offering for the PCI compatible Macintosh system market – the NEXUS GA – based on the RAGE PRO technology – for professional 2D and workstation class 3D acceleration at a mainstream price. ATI's Mac products have also received critical acclaim from all the top Mac industry publications.

Our most noteworthy board product is ATI's ALL-IN-WONDER board, which has experienced tremendous success in the market. This 3D accelerator and multimedia board provides seven of the most sought-after features by gamers and multimedia enthusiasts: (1) fast 3D acceleration; (2) 64-bit 2D performance; (3) TV-quality video acceleration; (4) video capture; (5) advanced TV-tuner capabilities; (6) flicker-free TV-out; and, (7) stereo-TV audio for high-quality stereo sound. The ALL-IN-WONDER board has received numerous "Editors' Choice" awards from a variety of industry magazines.

Outlook

Leading the Market

ATI is pleased to report the Company captured the majority of the AGP-related design wins awarded this fall. Our RAGE PRO AGP chip has been selected by more Top Ten computer manufacturers than any other vendor of integrated 2D, 3D and video AGP accelerators. We anticipate this leadership position in AGP will significantly increase our overall market share in the consumer and commercial desktop and mobile markets.

Our success to date is attributable to ATI's strategy to deliver the best products and technologies, at the right time, at the right price and to the right target market. By combining our efforts: to obtain deeper penetration into the Top Ten OEMs; to target new emerging markets; to manage technology transitions; and, to always concentrate on reducing costs and streamlining internal processes, we anticipate the Company can successfully maintain its momentum for the coming years.

ATI will continue to capitalize on its product positioning strategy, established in fiscal 1996, to offer products that fulfill a Category Life Cycle Solution: sustaining our customers' needs as they transfer capabilities from board-level to chip-level (i.e. motherboard) solutions. The RAGE chip was developed as one of the industry's first 3D components in fiscal 1996. In fiscal 1997 ATI announced five chip products and seven new board products all stemming from or working in conjunction with the RAGE technology.

The modular design of our RAGE technology and our integrated chip philosophy has enabled ATI to respond quickly, not only to market changes, but also to a variety of market segments. The ability to establish a presence in a variety of markets opens the door to the exciting "convergence" segment of the PC market. Bringing together a variety of technologies presents an excellent opportunity for ATI to define the future of the consumer graphics business.

Based on the core technologies we have created, the broader based relationships we've developed and our astute timing in the market, I am confident that in 1998 ATI will continue to outpace the market.

In 1997 our record-setting pace and accomplishments were achieved due to the commitment, hard work and enthusiastic efforts of the people of ATI. I would like to extend a special thanks to all our ATI employees. As well, I wish to thank our customers, suppliers, sales associates, members of the Board of Directors and shareholders for their continuous support.

K.Y. Ho

President and CEO

October 10, 1997

1998 Objectives

ATI has developed a series of initiatives to enhance its leadership position in the graphics industry. Some key objectives for fiscal 1998:

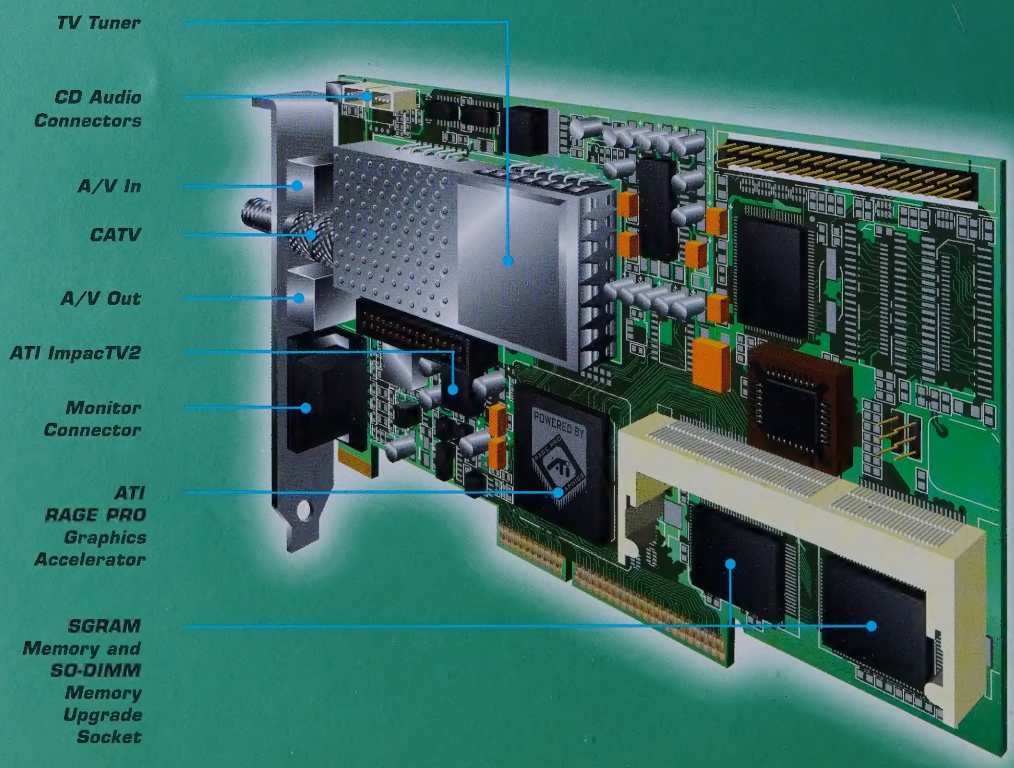
- To increase our market share in the graphics controller market.
- To penetrate two of the top three commercial PC OEMs.
- To penetrate one of the top three notebook OEMs.
- To be the first graphics company to ship 1 million AGP controllers.
- To expand ATI's presence in the Asia-Pacific markets.
- To ship 1 million boards in a month.
- To continue to develop and strengthen our staff through training, incentives and the addition of key personnel.

ATI at a Glance

ATI believes that personal computers should express life the way people see it – in 3D, in full motion, with vibrant colours that present a panoramic landscape.

ATI is one of only two major suppliers of 3D graphics and multimedia technology in the world. ATI is ranked number one in the branded add-in graphics board market and number one, worldwide, in the OEM consumer graphics market.

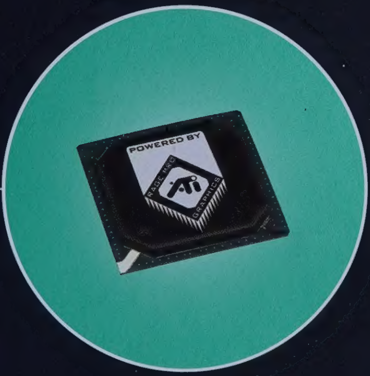
Its components, purchased by OEMs, are chips which reside on system motherboards. Its board products, purchased by OEMs or by consumers through retail centres, incorporate ATI chips and are inserted into an available slot inside a computer. ATI's multimedia solutions lead the industry in meeting the needs of the rapidly growing convergence market, marrying the intelligence of the computer with the compelling and vast content of TV.



Components

ATI develops and manufactures a range of graphics components for OEMs, whom design these components onto their PC motherboards. This allows OEMs to differentiate their products in the marketplace by incorporating the outstanding performance features of ATI's component products.

- *RAGE PRO*
- *ImpacTV*
- *RAGE LT*



Boards

Since 1985, ATI has pioneered the development of PC graphics board-level products and has emerged as one of the leaders in the graphics accelerator market. As a result, ATI is well positioned to provide the next generation of graphics accelerator board products.

- *XPERT@WORK*
- *XPERT@PLAY*
- *3D PRO TURBO+PC2TV*

Multimedia

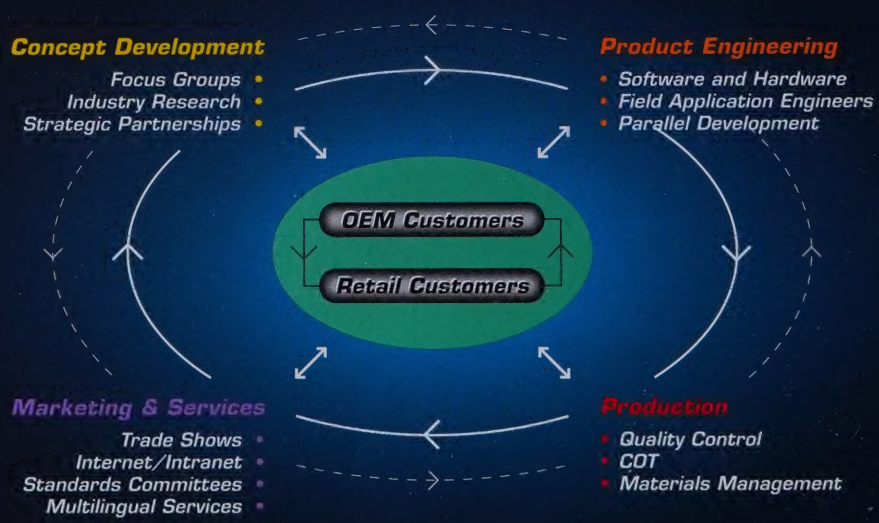
The multimedia market is presently one of the fastest growing and least defined segments of the PC Enhancement sector. ATI has increased its research and development and marketing resources to aggressively position ATI as a long-term player in the desktop segment of the multimedia market.

- *ALL-IN-WONDER PRO*
- *ATI-TV*
- *XCLAIM VR*

In Front for Customers with Technology

For ATI, success as a technology company begins and ends with its customers. In the following section of this Annual Report, ATI outlines its business processes and the influence which its customers have on the Company's operations.

Progress with OEM customers is the springboard to growth in retail and distribution sales, but it is a symbiotic relationship. Retail sales creates brand awareness through store displays, advertising and promotions, which also drive interest among OEM customers. One leverages the other.

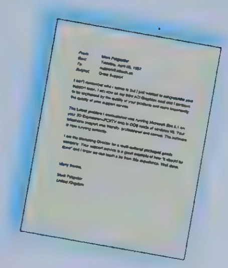


Well before new ATI products are even conceived, right through to the packaging of retail products, OEM and end-user customers play a critical role in ATI's development, engineering, production, distribution, marketing and customer support cycles. Throughout the process, ATI systematically includes numerous reality checks with its customers. These interdependencies and an environment of teamwork – both inside and outside the company – are vital to achieving an edge in the market by delivering products at the right time, with the right functions and at the right price.

ATI is a world-class technology company. ATI's products consistently receive numerous industry awards from leading periodicals for their features, functions, ease-of-use and price. As important, ATI receives daily feedback from its customers – at a rate of 1,200 communications per day – whom articulate their needs, concerns and compliments.

ATI's OEM customers, which include industry leaders such as Compaq, Dell, Hewlett-Packard, IBM and Sony to name a few, have unique requirements which ATI services at the component level. These customers share their product and technology roadmaps with ATI, whom, in turn, discloses its technology directions. They collaborate in partnership throughout the process on chip-set features, functions, systems requirements, software, volume and pricing needs.

Ultimately, these computer products housing ATI technology, are sold to consumer and corporate users. ATI also sells board-level products and multimedia technology directly to the consumer, who typically purchases ATI products at the retail level. These consumers are actively involved in ATI's business processes. ATI interacts with retail customers through trade focus groups, the Internet, and through in-store promotions.



"I am the Marketing Director for a multi-national packaged goods company. Your support service is a great example of how 'it should be done' and I know we can learn a lot from this experience. Well done."
Many thanks,
Mark Potgieter,
The United Kingdom

ATI's teamwork environment is vital to deliver products at the right time, with the right functions and at the right price.

In addition, ATI has strong relationships with industry influencers such as Intel and Microsoft, who shape customer and technology directions months and even years ahead. Finally, ATI's processes link with critical suppliers, such as chip fabrication plants, mask-making houses and board assembly plants. Through continuous process refinement ATI remains in front for its customers with technology.

Concept Development

The first step in delivering technology solutions is the concept development phase. Here, ATI taps into numerous sources as we visualize new products.

ATI's team members pour over industry and market research documents, which provide an independent forecast of where the graphics industry is headed. We closely monitor the PC technology environment to stay abreast of systems directions and to accurately gauge the market years into the future.

The ATI-TV card takes advantage of the convergence of the PC and TV. Users can turn their PC into an intelligent television that can maximize the usefulness of information found on hundreds of channels.

ATI, at both the hardware and software levels, is in constant dialogue with PC manufacturers to collaborate in determining the functions and features required to build the PCs based on the OEMs' product roadmaps. ATI dialogues with customers, through focus groups, at trade shows, gaming conferences, via the Internet and through customer calls. We maintain daily contact with key strategic partners and PC industry trend-setters such as Microsoft and Intel.

As well, ATI develops its own internal product concepts and product ideas, creating and refining algorithms and architectures to push the frontiers ever further by designing more power and speed onto every silicon chip. Here too, ATI works in tandem with its fabrication partners, melding product ideas with the fabs' technology plans.

ATI engineers are in constant dialogue with PC manufacturers to determine the functions and features they want to build into their PCs.

With all of its inputs, ATI prepares a product specification. The specification undergoes numerous alterations and creative twists which may include prototyping algorithms, before the concept is released for development.

Critical decision points are discussed at the concept development phase of ATI's process – always pushing the envelope of performance while keeping in check the need to balance price and ease of manufacturing. ATI's commitment to research and development at the concept development and in the product engineering stages is unwavering. In fiscal 1997, the Company invested approximately $60 million in R&D, which ranks ATI as one of Canada's Top 50 R&D companies.

Fiscal 1997 presents a glowing testimonial to the vital role of concept development, and of the speed and refinement of ATI's entire product process. As the year began, Intel and ATI engineers were at the conceptual stage for the Accelerated Graphics Port (AGP), a high

Concept Development

Fiscal 1997 presents a glowing testimonial to the vital role of concept development, and of the speed and refinement of ATI's entire product process.

performance, component-level interconnect that brings stunning, unprecedented levels of realism to 3D graphical display applications. Throughout the year, ATI worked closely with Intel, with Microsoft's verification labs, and independently with virtually every leading OEM to incorporate ATI's RAGE PRO AGP chip into their new systems. By fiscal year-end, ATI outpaced its competitors with AGP design wins, including first-time agreements with industry leaders Compaq and Dell.

ATI's RAGE PRO chip sets new standards for gaming entertainment and multimedia applications.

Product Engineering

Once the product specification is complete, it is time for engineers to turn the paper document into a prototype component or board, complete with software – ready for customer sampling and ultimately volume production.

Product engineering involves the design of the ASIC chip, board, software and hardware documentation. It is a parallel process, with tight schedules, because the dependencies of each group are vital to the success of product engineering. With more than 450 engineers in-house working on multiple product sets, the pace is astonishingly fast.

World's first 3D LCD accelerator. Based on ATI's RAGE II accelerator, the RAGE LT is a no-compromise LCD controller chip.

In ASIC design, the concept product or specification goes through three concurrent streams. The three streams are: software emulation; Very high-speed integrated circuit Hardware Description Language (VHDL) design; and custom/analog development. It is a precise, micron world, with engineers designing chips in 6mm squares, housing more than three million transistors.

The software is then tested and simulated to achieve the expected results. ATI develops software at two levels. The software driver controls the computer hardware through its operating system, while the application software lets the user interact with the system. ATI has more than 225 software engineers. By developing and controlling its own software, ATI maintains a distinct competitive advantage in the market.

Engineering is a parallel process, with more than 450 engineers in-house working on multiple product sets. The pace is astonishingly fast.

A process called synthesis turns the VHDL design into gates. Once the ASIC design is validated, a chip layout is prepared. With the layout proven and sample chips produced, these are shown to OEM partners who test the improved speed, performance and functionality of yet another leading generation of ATI products.

Board-level design follows a similar concurrent process, beginning with a specification. A schematic design is prepared in parallel with software and Basic Input/Output System (BIOS), as well as collateral materials. The design goes through various simulations, from layout to prototype boards, which are extensively tested by Quality Assurance before a product is released for manufacture.

ATI improves its time-to-market by using a modular design philosophy throughout product engineering. Design modules, both hardware and software, are reused as a base whenever possible. This way, designs which require modification can be executed in weeks. Considering the high volume of product introductions in fiscal 1997, a record year for ATI

Product Engineering

ATI improves its time-to-market by using a modular design philosophy throughout product engineering.

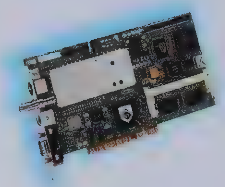
by any measure, the Company's engineers and their processes were instrumental in delivering the highest volume ever of product introductions in fiscal 1997.

During the year, ATI led the industry with the deployment of an AGP bus solution; was first to market with a hardware-accelerated software DVD solution; introduced the ALL-IN-WONDER to industry praise; announced the world's first 3D accelerator for portable computers and flat panels; and, introduced a TV-encoder chip for consumer electronics leaders – claiming industry leadership in technology, price and timing.

Production

ATI is unique in the industry as a supplier of both chip and board-level products. Accredited as an ISO 9002 Company, ATI has streamlined its manufacturing and production processes, both in-house and at partner suppliers, ensuring the highest possible level of product quality.

Once all chip designs and layouts are complete, ATI sends an electronic file of its engineered chip to a mask-making house in Taiwan, where the production process begins. The mask-making house creates a photographic image for each physical layer of the chip. The fab house takes these masks and uses them to build up the chip layers which results in finished wafers. The wafers are tested, diced, packaged and tested again, before returning to ATI for qualification so that volume production can begin. ATI's Customer Owned Tooling (COT) process and fab agreements in Asia-Pacific became fully engaged in the latter half of 1997, allowing ATI to shorten development and production cycle time and to increase volume capacity to ensure prompt delivery to OEM customers.



The ultimate graphics card. The ALL-IN-WONDER PRO is the most cost-effective route to high-quality home theatre, providing big screen display for movies and cyber adventures for the entire family.

Board-level graphics and multimedia products are produced either at ATI's Canadian ISO certified manufacturing facility, or are subcontracted to qualified board assembly plants in North America and Asia-Pacific. ATI increased its internal board production capacity by adding a second manufacturing line which has more than doubled internal production capacity through the utilization of more efficient and faster equipment.

ATI's COT process allows the Company to shorten development and production cycle time to ensure quicker time-to-market.

ATI successfully implemented its COT program in 1997. COT enables the Company to shorten lead times from initial order through final shipment; reduce costs and improve gross margins; increase manufacturing flexibility; and, improve product quality. Under COT, ATI controls and manages more of the component development and manufacturing cycle, limiting its dependence on full-service ASIC vendors. It is anticipated that close to 100% of ATI's ASIC production in fiscal 1998 will be produced under the COT program.

ATI continues to place strong emphasis on continuous quality improvements, ensuring that OEM customers of ATI components and retail customers of ATI graphics and multimedia boards receive high-quality products. Product testing is conducted throughout the development, engineering and production processes. Because ATI is uniquely positioned as a hardware and software developer, the Company has the added complexity – and control –

ATI is unique in the industry as a supplier of both chip and board-level products.

of ensuring that its manufacturing process produces robust solutions of the highest quality.

ATI works closely to meet the rigid specifications of OEM manufacturers as well as industry leaders such as Microsoft and Intel. For instance, with ATI's AGP solution, the RAGE PRO supports the high performance AGP texturing mode of Intel's AGP specification.

ATI ImpacTV

ImpacTV technology transforms the PC instantly into an effective entertainment and presentation tool.

OEM Sales

The OEM customer base represents approximately 80% of ATI's sales, accounting for ATI's successful transition to an OEM component company that also manufactures its own board-level products. ATI has solidified its position with OEMs by working in partnership with these customers, from early concept development to product testing and qualification, right through to supporting their end-users.

ATI had another significant breakthrough year in 1997 with OEMs, earning design wins in record numbers. By year-end, ATI had established business with each of the Top Ten personal computer market leaders. Significantly, the Company's AGP solution led to its first-ever design wins with two of the most influential PC manufacturers, Compaq and Dell. As well, the Company's products were incorporated into Sony's PCV series; the Bravo MS commercial desktop from AST; Toshiba's Equium business systems; and Gateway 2000's corporate, small business and home PC computers. These contracts were in addition to continuing relationships ATI enjoys with other leading PC manufacturers such as Acer, Apple, Fujitsu, Hewlett-Packard, IBM and Packard Bell/NEC.

ATI's European subsidiaries experienced tremendous growth with its OEM customer base in the past year. Unit sales grew over 100% making ATI the number one supplier of graphics accelerator boards in Europe.

The key benefit of convergence to the PC user is the ability to use the intelligence of the computer to capitalize on the advantages of a television. ATI's products make this convergence a reality, and at very affordable prices.

The Company's AGP solution led to its first-ever design wins with two of the most influential PC manufacturers, Compaq and Dell.

The PC business has evolved into four distinct markets – consumer and commercial desktops, workstations and notebooks – each with unique requirements for graphics and multimedia from a price/performance and application support standpoint. ATI is the market leader in the consumer PC market, where its 3D strength and video features position the Company favourably. A focus for ATI is to grow its share in the corporate desktop market, which is why the Company's recent design wins with Dell and Fujitsu were significant achievements.

ATI's discussions with an OEM often begin with a forward-looking exchange of ideas on the direction of the graphics and PC market, and how the OEM and ATI can work together to create a differentiated solution. Other levels of discussions may involve a chip/board prototype or working documents, where both parties devote resources, develop product plans and schedules. A process for customer evaluation of ATI software, prototype chips and boards for quality testing is also established. With chips that are already in production, the partnership continues on improving logistics and quality.

OEM Sales

Teamwork, both inside ATI and with numerous departments at the OEM, leads to continuing success.

ATI has placed extensive focus on the relationship management of OEM business. A program manager and Field Application Engineer (FAE) are assigned to each account, coordinating cross-functional initiatives. Field application engineering handles all technical contact with each OEM. Teamwork, both inside ATI and with various departments at the OEM, leads to continuing success.

Retail Sales

In 1997, ATI had a breakthrough year in retail sales. The Company quadrupled its retail presence in North America to more than 700 retail outlets. During the year, ATI earned a presence with the five largest retailers in the United States: Best Buy; CompUSA; Computer City; Egghead and Fry's; which together have 600 retail stores in the world's largest market for graphics and multimedia boards.

ATI positioned itself as the retail leader in the convergence of the PC with the TV – and in the multimedia market, led by the strengths of ATI's ALL-IN-WONDER, ATI-TV and ImpacTV. These and other products, offered at competitive retail prices and supported with innovative, appealing packaging and promotions, helped drive customers to the retail graphics category.

The superior performance of NEXUS GA is ideal for Macintosh designers and graphics professionals who need to increase their productivity.

In fiscal 1998, ATI anticipates further growth in the retail sector. The Company expects to have a presence with top-tier retailers for the entire year. As well, ATI is strengthening existing relationships and building new inroads with other retailers, offering a full range of industry-leading products.

While retail is the most visible segment of ATI's distribution channel, other vital channels continue to grow and receive focus. ATI is well-positioned with leading international distributors, which sell to retailers, as well as with value-added resellers (VAR), systems integrators, catalogue and direct mail operators.

The key to success with these distribution channels is to manage the relationships and offer innovative programs such as inventory management, co-operative marketing, cross-channel promotions and seasonal campaigns. ATI is well-positioned with strong technology products for the distribution channel, carefully-managed relationships and competitive prices.

ATI positioned itself as the retail leader in the convergence of the PC with the TV – and in the multimedia market.

In 1998, the focus will be to create new demand at the VAR level and to develop and execute channel programs and promotions channel-wide – as well as at the account level. In addition, ATI plans to expand its presence with systems integrators and to develop the Australian and South American markets.

These outbound initiatives to further strengthen the distribution of ATI products are supported by a strong inbound program in customer support.

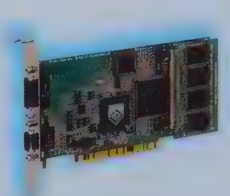
ATI interacts with about 1,200 end-user customers every day. The Company also gets more than 12,000 hits per day to its website. In effect, this high level of communications serves as ATI's reality check with end-user customers and provides customers with a voice into the Company.

Customer input on product features and functionality is immediately communicated to product managers and engineers via e-mail and posted on ATI's intranet.

Customer service representatives provide more than routine technical support. Customer input on product features and functionality is immediately communicated to product managers and engineers via e-mail and posted on ATI's intranet. This valuable feedback serves as a dynamic catalogue of customer comment that is circulated right back into the development process for new products.

In 1997, ATI's customer support department dramatically increased productivity by deploying new call centre technology; launched an Internet presence which now accounts for approximately half of its customer dialogue; and built an infrastructure in Ireland for a multilingual European customer support organization, which became fully operational in September 1997. This strategic move was implemented due to the fact that ATI does business in 33 European markets with 29 distinct languages.

ATI monitors the pulse of its customers. It has processes in place to ensure that customer input on product features and market directions is heard. The cycle of excellence and leadership continues. ATI intends to remain in front.



ATI turned its successful mainstream price/performance strategy towards the high-end segment of the Mac market with the NEXUS GA

Recognition of Excellence

ATI and its products have earned rave reviews and countless awards from leading industry publications. The following table includes some highlights of the Company's achievements in fiscal 1997.

Product	*Award*	*Publication*	*Issue*
North America			
ALL-IN-WONDER	Kick Ass	**Boot Magazine**	Jun
	Editors' Choice	**PC Gamer**	Jul
	Editors' Choice	**PC Magazine**	Jun
	Editors' Choice	**3D Design Magazine**	Jun
ATI-TV	Editors' Choice	**PC Gamer**	May
3D PRO TURBO+PC2TV	Best Buy	**PC World**	Oct
3D XPRESSION+PC2TV	Best Buy	**Computer Currents**	Mar
	Best Buy	**PC World**	Feb
	Best of the Best	**Computer Life**	Jan
	BootWorthy	**Boot Magazine**	Mar
	WINLIST	**Windows Magazine**	Aug
	Four Star Review	**Byte Magazine**	Feb
XCLAIM VR	World Class	**MacWorld**	Apr
	Marvel Award	**MacHome Journal**	Apr
	Home Choice	**MacHome Journal**	Aug
	Four Mouse Rating	**MacUser**	Apr
International			
ATI-TV	Empfehlung Budget	**PC Professionell** *(Germany)*	Mar
3D PRO TURBO	Best Inter@ctive	**PC Inter@ctive** *(Italy)*	Jun
	Choix de la Redaction	**PC Mag** *(France)*	Apr
3D PRO TURBO+PC2TV	Choix de la Redaction	**PC Expert** *(France)*	Jan
	PC Shopping Empfehlung	**PC Shopping** *(Germany)*	Feb
	Recommended PC Answers	**PC Answers** *(UK)*	Feb
3D XPRESSION+	MikroPC testivoittaja	**MikroPC** *(Finland)*	Apr
3D XPRESSION+PC2TV	Empfehlung	**PC Action** *(Germany)*	Feb
	PC Shopping Empfehlung	**PC Shopping** *(Germany)*	Apr
XPERT@WORK	Testsieger	**PC Go!** *(Germany)*	Sept
XCLAIM 3D	MacUser Best Buy	**MacUser** *(UK)*	May
XCLAIM VR	Beste Multimedia Grafikkarte	**MACUP** *(Germany)*	Aug
Other			
ATI Technologies Inc.	Resellers' Choice Awards	**Computer Dealer News**	Jun
	Channel Champions	**Computer Reseller News**	Jun

Management's Discussion and Analysis of Operating Results and Financial Position

The following discussion should be read in conjunction with the Company's 1997 Consolidated Financial Statements and Accompanying Notes beginning on page 30 of this Annual Report.

Overview

ATI Technologies Inc. (ATI) reported sales of $602.8 million for the year ended August 31, 1997, an increase of 29% over fiscal 1996 sales of $466.6 million and an increase of 68% over fiscal 1995 sales of $359.7 million. Net income of $47.7 million for the year ended August 31, 1997 compares with net income of $27.3 million in fiscal 1996 and net income of $15.9 million in fiscal 1995.

Operating results improved in 1997 primarily as a result of good sales growth and better gross margins. Sales increased in 1997 over 1996 mainly due to: achieving added penetration into the Top Ten PC Original Equipment Manufacturers (OEMs); strong demand for ATI's 3D components; introduction of several new and innovative board-level products; and, growth in sales to the Asia-Pacific PC markets. Gross margins improved as the Company moved to fully implement its Customer Owned Tooling (COT) design and production system rather than outsource production to full service fabrication (fab) plants as in prior years; a higher percentage of component products; and, more leading-edge 3D boards.

The principal reasons for the improvement in operating results evidenced in fiscal 1996 include: the expansion of ATI's geographic markets in Asia-Pacific; the further expansion of ATI's product lines to include high-volume component sales; the positive impact of new board products introduced during fiscal 1996; the favourable impact of a dramatic decline in memory prices in the latter half of the year; and, a continuing management focus on improving ATI's gross and pre-tax margins.

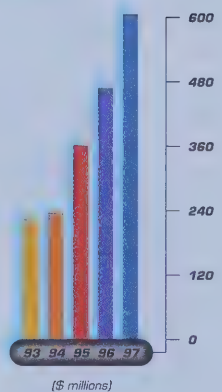
The significant improvement in operating performance in fiscal 1995 was a result of ATI's success in regaining market share in Europe, in expanding sales activities into additional product market segments and in achieving improved controls over selling and administrative expenses, as compared to the previous year.

Industry, Market and Product Trends

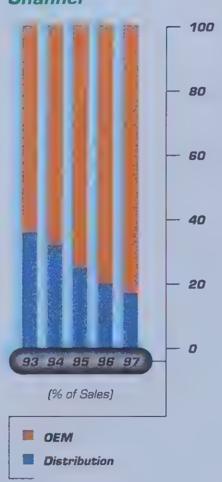
In fiscal 1995, the PC graphics market witnessed a transition from multiple-component graphics accelerator products to integrated graphics accelerator solutions. During 1995 ATI and all of its major competitors in graphics component design and supply responded to this change and announced their first integrated graphics accelerator products. ATI introduced the ATI-264CT, an advanced modular-design graphics accelerator. The ATI-264CT modular design has been and will continue to be the 2D base for much of ATI's integrated chip technology R&D efforts. Further augmenting the Company's core technology blocks, ATI added a video module and introduced the ATI-264VT in 1996. The Company's latest core module is its Three Dimensional (3D) feature sets integrated in the ATI RAGE family of components.

These new integrated graphics accelerator components have been the base by which the Company has established itself as a supplier to the value-priced, high-volume OEM component market. As described in the fiscal 1996 MD&A, *"commencing in fiscal 1995, the Company has been undergoing a strategic change in overall direction and operating focus. Specifically, ATI has been repositioning itself in the global computer graphics market to transition from a board product company that designs its own proprietary graphics*

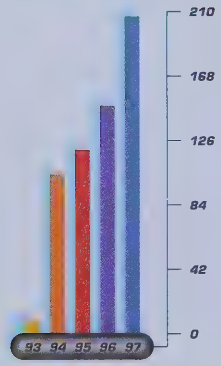
Sales



Sales by Channel



Shareholders' Equity



($ millions)

components, to a graphics component company that also manufactures its own proprietary board-level products". This transition has effectively materialized and has had a significant impact on the Company's operations in several areas, specifically OEM sales (see *Sales* section) and R&D expenses (see *Expenses* section). OEM component sales increased as a percentage of total OEM sales and of total Company sales in fiscal 1997 relative to fiscal 1996 and fiscal 1995.

In the fiscal 1996 MD&A, ATI also noted that *"going forward, the Company expects that component-level sales to OEM customers will increase as a percentage of total sales over the prior years' levels."* OEM sales increased as a percentage of total Company sales from 75% in fiscal 1995 to 81% in fiscal 1996 and 83% in fiscal 1997. Components made up 32% of total Company sales in fiscal 1997 compared with 22% in fiscal 1996 and 13% in fiscal 1995.

During fiscal 1997, the Company's R&D group concentrated further on supporting the transition to a high-volume OEM component supplier and adopted a Customer Owned Tooling component design and manufacturing process. The COT process allows ATI increased design and manufacturing flexibility, in addition to potentially lowering overall product costs. With the introduction of the COT design technology and the Company's focus on high-volume OEM component product capabilities, ATI is positioned to complete the transition to a significant supplier to the value-priced, high-volume OEM component market (see also discussion under *Component Supply* section).

As mentioned in the prior year's MD&A, management continues to believe that the desktop multimedia market also represents a significant growth opportunity for the Company. R&D efforts in the multimedia product market increased in fiscal 1997 over the previous years and several new multimedia board-level products were introduced. Most noteworthy was ATI's ALL-IN-WONDER multimedia board which has won much critical acclaim. Additional new product announcements with respect to ATI's desktop multimedia hardware and software products will be made early in fiscal 1998.

Management also believes that the laptop or portables segment of the computer market represents a significant growth opportunity for the Company. From the Company's inception through fiscal 1997, its product direction has been targeted exclusively at the desktop segment of the computer market. Recent industry surveys indicate that the laptop or portables segment of the computer market may be the fastest growing segment of the market over the next few years. As a result, ATI increased its R&D efforts in the laptop or portables product category in fiscal 1996 and fiscal 1997. New product announcements with respect to ATI's laptop or portable multimedia graphics component products will be made early in fiscal 1998.

Comparison of Operating Results for the Years Ended August 31, 1997, 1996 and 1995

Operating Results

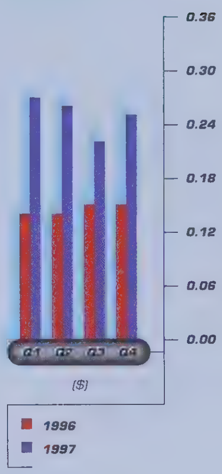
The Company's reported operating results have been and will continue to be subject to quarterly and other fluctuations as a result of several factors including, among other things, changing market conditions; changes in pricing policies by competitors and/or suppliers; the availability and cost of the Company's products and materials from suppliers; the addition or loss of significant customers; seasonal customer demand; new product introductions by the Company or its competitors; and, changes in the sales mix both of products sold and the geographic regions where the products are sold.

The Company's reported operating results

may vary from prior periods or may be adversely impacted in periods where it is undergoing a product line transition when sales of newer products must be ramped up to replace sales of the Company's older products. These older products often come under significant pricing and margin pressure as a result of competitors' actions in the marketplace. If the Company's new products are delayed or do not offer the features and performance required by its customers, operating results may be negatively impacted. As a result of all or any combination of the issues discussed above, the Company's operating results and common share price may be subject to a significant level of volatility, in particular on a quarterly basis.

The following table sets out a comparison of operating results for the three most recent fiscal years and a comparison of the percentage of sales represented by each line item. Certain 1996 and 1995 figures have been reclassified to conform with 1997 presentation.

Net Income Per Share by Quarter



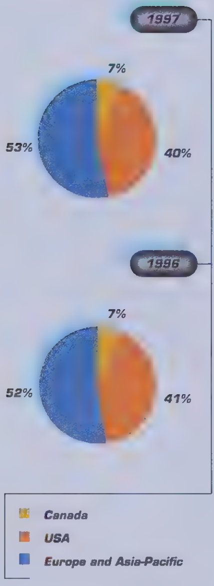
Thousands of Canadian dollars, except per share amounts	1997		1996		1995	
			Years ended August 31			
	$	%	$	%	$	%
Sales	$ 602,839	100.0	$ 466,598	100.0	$ 359,732	100.0
Cost of goods sold	409,153	67.9	343,699	73.7	275,499	76.6
	193,686	32.1	122,899	26.3	84,233	23.4
Expenses						
Selling and marketing	58,936	9.8	45,174	9.7	26,985	7.5
Research and development	44,459	7.4	27,507	5.9	21,602	6.0
Administrative	21,848	3.6	14,933	3.2	12,344	3.4
	125,243	20.8	87,614	18.8	60,931	16.9
Income from operations	68,443	11.3	35,285	7.5	23,302	6.5
Interest and other income	3,733	0.6	3,683	0.8	1,155	0.3
Interest expense	(382)	—	(179)	—	(664)	(0.2)
Income before income taxes	71,794	11.9	38,789	8.3	23,793	6.6
Income taxes	24,105	4.0	11,442	2.4	7,925	2.2
Net income	$ 47,689	7.9	$ 27,347	5.9	$ 15,868	4.4
Net income per share						
Basic	$1.00		$0.58		$0.34	
Fully diluted	$0.94		$0.56		$0.34	

Certain figures have been reclassified to conform with 1997 presentation.

Sales

Sales in fiscal 1997 increased by $136.2 million, or 29%, over fiscal 1996 and $243.1 million, or 68%, over fiscal 1995. The increase in year-over-year sales reflects: the geographic expansion into European and Asia-Pacific markets; the introduction of several new products, both component and board-level; and, the Company's success in penetrating the OEM market, especially the Top Ten OEMs, in fiscal 1997 and 1996. Going forward, the Company expects that component-level unit sales to OEM customers will increase as a percentage of total unit sales over prior years' levels. Component sales attract a lower average selling price than board-level products. To the extent that component sales replace board-level sales to existing customers, if total unit sales do not increase in sufficient quantities, the Company's total sales may be adversely impacted. In addition,

Sales by Geography



increasing competition in the computer graphics market has resulted in continuing pressure on pricing and margins for both component and board-level products. To the extent that this competition and price pressure continues, the Company's total sales may be adversely impacted.

Sales to OEM customers continued to increase as a percentage of total Company sales: OEM – 83% and Distribution – 17% of total Company sales in 1997; compared with OEM – 80% in 1996 (75% in 1995) and Distribution – 20% in 1996 (25% in 1995). Sales by major geographic territory (previous years – 1996, 1995 – in brackets) were as follows: Canada 7% (7% and 9%); USA 40% (41% and 55%); and, Europe and Asia-Pacific 53% (52% and 36%). The increase in European and Asia-Pacific sales as a percentage of total sales is a direct result of ATI's efforts to strengthen its international sales force and to localize the Company's products into all of the major European and Asian languages. These initiatives commenced during fiscal 1995 and continued into fiscal 1997.

In fiscal 1997 and 1996, no single customer accounted for 10% of total sales and the Company's top 10 customers accounted for less than 60% of total sales. In fiscal 1995, one large OEM customer accounted for approximately 20% of sales and one other customer accounted for approximately 11% of sales.

Cost of Goods Sold

Cost of goods sold decreased as a percentage of sales from 73.7% in 1996 (76.6% in 1995) to 67.9% in 1997.

The improvement in cost of goods sold in 1997 relative to 1996 reflects the positive impact of: the implementation of the COT initiative commencing with the Company's RAGE II+DVD component; the timely introduction of several new 3D component and board-level products; and, the benefits of lower material costs purchased directly by the Company.

The improvement in cost of goods sold in 1996 relative to 1995 reflects the positive impact of: the introduction of ATI's new integrated graphics controllers across the entire product line in fiscal 1996; the positive impact of a series of new component and board-level products during the fiscal year; and, the positive impact of the dramatic decrease in the cost of DRAM and other memory components on ATI's board-level business in the second half of fiscal 1996. ATI managed to retain a portion of this memory price decrease and this is reflected in lower cost of goods sold, more than offsetting the higher percentage of Company sales being comprised by the increasingly competitive OEM board-product markets.

Expenses

Selling and marketing expenses increased significantly in fiscal 1997 over fiscal 1996 in terms of total dollar amount ($13.8 million), but remained unchanged as a percentage of sales – 10% in fiscal 1997 versus 10% in fiscal 1996. Selling and marketing expenses also increased significantly in fiscal 1996 compared to fiscal 1995 in terms of dollar amount ($17.7 million) and as a percentage of sales – 10% in fiscal 1996 versus 8% in fiscal 1995. In both comparisons, a significant portion of the increase in total selling and marketing expense reflects the increase in sales and marketing personnel; the increased commission and marketing costs to support the continuing expansion of ATI's geographic sales markets; and, the introduction of the Company's new products in fiscal 1997 and fiscal 1996. Management does anticipate that selling and marketing expenses will continue to increase

in total dollars, in order to support anticipated sales growth and continued geographic market expansion.

Research and development expenses increased significantly over fiscal 1996 by approximately 62% (or $17.0 million) and over fiscal 1995 by approximately 106% (or $22.9 million). This increase reflects: additions to R&D staff during the year (473 at August 31, 1997; 303 at August 31, 1996; 251 at August 31, 1995); the subsequent, full-year impact of staff additions made during the prior years; the continued expansion of ATI's R&D activities into the multimedia and LCD segments of the graphics market; the increased focus on supporting and implementing the COT component product design methodology; and, the continuing focus on ATI's core integrated chip technology, which will support ATI's new product development efforts in fiscal 1998 and beyond. Management expects that R&D expenses will continue to increase in total dollars in order to support the Company's product line expansion and anticipated sales growth.

Administrative expenses increased over fiscal 1996 by approximately 46% (or $6.9 million), and over fiscal 1995 by 77% (or $9.5 million), due to increased expenses incurred by ATI and ATI's European subsidiaries to further strengthen the corporate infrastructure in order to manage the significant growth experienced in fiscal 1997 and 1996. In particular, 1997 was the first full year of operations for ATI's manufacturing, distribution and supply facility in Dublin, Ireland.

Income tax expense as a percentage of *Income before taxes* increased from 29.5% in the previous year to 33.6% in fiscal 1997 (33.3% in fiscal 1995). The principal reason for the increase in the Company's effective income tax rate was due to the decrease in loss-carryforward amounts available for Ontario income tax purposes. These loss-carryforward amounts had been utilized in prior years (see also note 9 to the *Financial Statements*).

Liquidity and Financial Resources

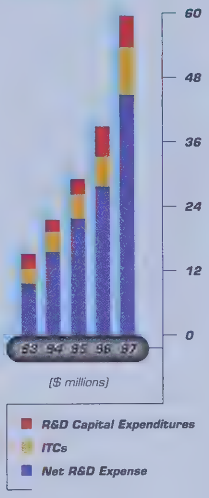
a) Cash

The Company has a US$40.0 million credit facility with a Canadian chartered bank (US$30.0 million in 1996). ATI had approximately CDN$71.8 million (US$51.7 million) in net cash resources (cash and cash equivalents less bank indebtedness) at August 31, 1997 which, in addition to the available operating line of US$40.0 million, provides approximately US$91.7 million of resources available to support ATI's operating objectives in fiscal 1998. Management believes that existing net cash resources and anticipated cash flow from operations will be sufficient to support the Company's projected working capital and capital expenditure requirements, including the final installment payment with respect to ATI's investment in the United Microelectronics Corporation (UMC) joint venture (see discussion below).

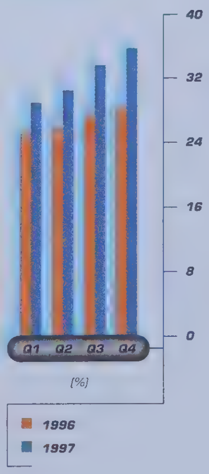
Net cash resources have increased from $63.6 million at the end of fiscal 1996 to approximately $71.8 million at the end of fiscal 1997. In both 1997 and 1996 ATI diligently monitored its working capital needs and produced positive cash flows from operations. Net cash balances increased in both fiscal 1997 and 1996 after capital additions and payments of $18.1 million ($9.4 million in 1996) for the Company's investment in the UMC joint venture (discussed below).

In 1995, the Company entered into a joint venture agreement with United Microelectronics Corporation and other investors to build

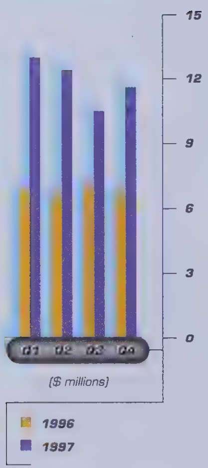
Investment in Research and Development



Gross Margin by Quarter



Net Income by Quarter



and operate a semiconductor manufacturing facility in Taiwan (see also note 6 to the *Financial Statements)*. The Company's initial investment commitment of 750 million New Taiwanese Dollars (NTD) entitled the Company to a 5.0% equity interest in the UMC joint venture and the right, but not the obligation, to purchase a portion of the wafer capacity of the new manufacturing facility at fair market prices.

In fiscal 1996, ATI made the first installment of its investment in the UMC joint venture. This payment, totalling approximately US$7.0 million, was made in January 1996 out of existing cash resources and is reflected in the Company's balance sheet under *Investment in joint venture.* The second installment of approximately US$15.0 million was paid in January 1997 also out of existing cash resources.

In October 1997 the United Integrated Circuits Corporation (UICC) semiconductor facility, which was in the final phase of construction, was damaged by fire. The damages, which will be covered by the facility's insurance policy, will cause a significant delay in the completion of the fab.

The final installment is scheduled to be paid in December 1997. Management has purchased a U.S. dollar forward exchange contract to hedge the remaining investment commitment to an equivalent of US$6.2 million.

b) Accounts Receivable

Accounts receivable increased 74% to $113.7 million at August 31, 1997 from $65.4 million at August 31, 1996. The substantial year-over-year increase in accounts receivable is due principally to large sales of the Company's newest product, the RAGE PRO that occurred in the last part of the fourth quarter.

At August 31, 1997, 95% of accounts receivable were current or less than 60 days outstanding (99% in fiscal 1996). Export Development Corporation (EDC) guarantees on outstanding accounts receivable covered approximately 89% of total accounts receivable, compared with 98% of total accounts receivable as at August 31, 1996. Because of the ramp-up of the RAGE PRO late in the fourth quarter and in order to meet strong customer demand, ATI exceeded certain credit limits allowable by the EDC. As a result, the percentage of Accounts Receivable covered by EDC guarantees was reduced at August 31, 1997.

c) Inventories

Inventories of $41.6 million at August 31, 1997 were higher than the $23.7 million on hand at August 31, 1996. Annual inventory turns were 12.5 times in fiscal 1997 compared with 14.0 times in fiscal 1996.

As discussed in the 1996 MD&A, *"management is of the opinion that inventory levels will likely increase in future given the transition to a COT design and manufacturing technology base."* Consequently, the higher inventory balance in fiscal 1997 did reflect the impact of the transition to COT, a system that required the Company to maintain a higher level of raw materials for production of its proprietary ASICs. In addition, the launch of the Company's XPERT@ series of board-level products required greater buffer inventory stocks to meet strong market demand. However, effective inventory management and control has maintained a good inventory turnover rate. Similar or better inventory turnover rate is expected to be sustainable in future, especially as the Company introduces a more advanced Manufacturing Resources Planning System (see also *Component Supply* section).

d) Investment Tax Credits Recoverable and Deferred Taxes

At the end of fiscal 1996, net debit balances related to ITCs and timing differences totalled approximately $2.0 million (ITCs of $5.8 million less deferred tax credit balances of $3.8 million). At the end of fiscal 1997, net credit balances related to ITCs and timing differences totalled approximately $5.0 million (ITCs of nil less deferred tax credit balances of $5.0 million) – a difference of $7.0 million during the 1997 fiscal year. This difference resulted from ATI generating taxable income in excess of the amount required to fully offset R&D ITCs generated in fiscal 1997 and the 1996 ITC debit balance, and from increased timing differences.

e) Capital Assets

Capital additions in fiscal 1997 totalled approximately $12.4 million ($8.5 million in fiscal 1996). Approximately $1.3 million of these expenditures related to the purchase of land and construction costs related to the building of the Company's distribution and supply facility in Ireland; and, approximately $6.4 million related to purchases of computer software, hardware and COT design tools to support ongoing R&D activities (comparable purchases of R&D related capital assets totalled $4.5 million in fiscal 1996). Also included in the 1997 capital additions, were purchases of approximately $2 million of furniture and leasehold improvements related to the expansion of the Canadian operation into a second building in Markham, Ontario (see also note 5 to the *Financial Statements).*

Potential Risks and Uncertainties

General and Economic

General economic and market conditions will continue to affect the timing, frequency and size of customer orders. A downturn in capital spending or in the market for PCs, significant order cancellations or order rescheduling could also impact ATI's overall sales and operating performance. In addition, as the Company must often order component products and build board-product inventories well in advance of shipment, in order to meet anticipated customer demand, there is a corresponding risk that sales forecasts will not match actual customer demand levels and that the Company will, as a result, produce either excess or insufficient inventories of certain products. Either of these situations could have an adverse impact on sales and operating results.

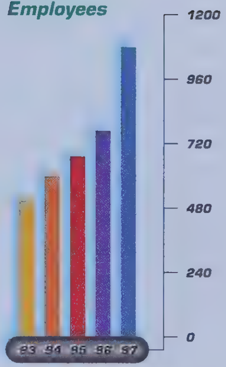
Technological Change

Most of the Company's product lines are and will continue to be subject to rapid technology and price changes. Several of the Company's customers place orders for many of these products with a short lead time. These customers generally can change delivery schedules or cancel orders without significant penalties. The ability of the Company's customers to cancel or reschedule orders not only increases the inventory production risk discussed above, but also may adversely impact reported operating results.

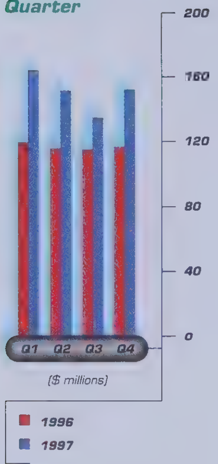
Product and Research and Development Life Cycle

In the PC enhancement industry, the life cycle of new products will continue to shorten. As existing products mature, they migrate to the lower end of the product line, allowing the Company

Number of Employees



Sales by Quarter



to offer a full range of products at all price points. The ability to be among the first-to-market with new or enhanced products and to replace the existing products, will be increasingly important to ATI in order to take advantage of these shorter market life cycles. In recognition of this, net R&D expenditures have increased by more than $17.0 million (or 62%) over fiscal 1996 and $22.9 million (or 106%) over fiscal 1995. Management expects that R&D expenditures will continue to increase on an annual basis in the current fiscal year and beyond, as ATI completes the transition to a supplier of high-volume component products to the OEM market and as ATI continues to expand its product lines.

Component Supply

From inception through to most of 1997, the Company has purchased ASIC component inventories for resale or to be added to its board-level products from independent, full service foundries. During 1997, the Company began to purchase components in raw material or wafer form and, under the COT design and manufacturing process discussed above, manages the subcontracting of the ASIC assembly, packaging and test processes. The change in the Company's manufacturing process from a full service basis, where the foundry is responsible for delivering the finished ASIC component, to a COT basis, where the wafer foundry processes the wafer only and ATI is responsible for completing the assembly, packaging and test processes to create ASIC components, will likely require the Company to maintain higher raw material inventory than was the case in previous years. This is because wafer inventory must be purchased immediately prior to beginning production of the Company's components. Management does, however, expect to achieve product cost savings by managing the subcontracting of the assembly, packaging and test processes. In 1998, the Company expects to purchase a substantial portion of its component products in wafer form.

In fiscal 1996, ATI announced a joint venture agreement with United Microelectronics Corporation and other partners, to build and manage a semiconductor manufacturing facility in Taiwan, ROC. UMC is a leader in the design and manufacture of integrated circuits. In October 1997 one of the fab facilities within UMC, UICC was extensively damaged by fire. While ATI had plans to use this facility in calendar 1998, it was intended only as a alternate source of wafer supply. The Company currently sources all of its production from other fab plants, namely USC and SGS Thomson. Prior to the fire at UICC, ATI had begun qualification of a third foundry in order to support the Company's growth plans for 1998.

The cyclical nature of the semiconductor industry has, in the past, resulted in shortages of wafer fabrication capacity. The Company's ability to maintain adequate levels of wafer inventories going forward will depend on the Company's ability to obtain a sufficient allocation of wafer production capacity from wafer foundries. Any inability of the Company to secure such allocations in future may adversely affect its ability to meet customer demand for its component and board products and, as a result, could have an adverse impact on sales and operating results.

Foreign Exchange

The Company's operating results are reported in Canadian dollars. The majority of the Company's sales and purchases are generated or incurred in U.S. dollars. The exchange rate

between the Canadian and U.S. dollar has varied significantly over the past several years. To the extent that U.S. dollar sales are greater than U.S. dollar purchases in a strengthening or weakening U.S. dollar environment, there is a corresponding positive or negative impact on ATI's income from operations. Management has taken action to reduce this foreign exchange risk by purchasing Canadian dollars forward, thereby fixing the transaction rate for funding Canadian dollar expenses out of U.S. dollar operating cash flows.

In addition, the Company has certain fixed asset and investment obligations denominated in Irish punts and New Taiwanese dollars. The Company has entered into forward exchange contracts specifically to hedge these obligations (see also note 3 to the *Financial Statements)*.

Quarterly Information

Historically, ATI has shipped more product in the third month of each quarter than in either of the first two months of each quarter. This sales pattern is common in the personal computer industry and is likely to continue. The concentration of sales in the last month of the quarter may cause the Company's quarterly operating results to be more difficult to predict than would otherwise be the case. Any disruption in ATI's production or shipping near the end of a quarter could have a material impact on the Company's net sales for that quarter. In addition, the Company's reliance on outside foundries and material suppliers reduces the Company's ability to control, among other things, component supply levels and delivery schedules.

Forward-looking Statements

Except for historical information contained herein, this Discussion and Analysis contains several forward-looking statements. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly release the results of any revision to these forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Management's Responsibility for Consolidated Financial Statements

Management of ATI Technologies Inc. is responsible for the integrity of the accompanying consolidated financial statements and all other information in this Annual Report. The financial statements have been prepared by management on a consistent basis in accordance with accounting principles generally accepted in Canada. The preparation of the consolidated financial statements necessarily involves the use of estimates and careful judgment, particularly in those circumstances where transactions affecting a current period are dependent upon future events. All financial information presented in the Annual Report is consistent with the consolidated financial statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting controls which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further ensures the quality of the financial records through careful selection and training of personnel and the adoption and communication of financial and other relevant policies and procedures.

The Board of Directors discharges its responsibilities with respect to the consolidated financial statements primarily through the activities of its Audit Committee, which is composed entirely of directors who are not employees of the Company. This committee meets quarterly with management, and at least annually with the Company's independent auditors to review the Company's reported financial performance and to discuss audit, internal control, accounting policy and financial reporting matters. The consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors.

The financial statements have been audited by KPMG, who were appointed by the shareholders at the last Annual General Meeting of Shareholders. Their report is presented herein.

Auditors' Report

To the Shareholders of ATI Technologies Inc.:

We have audited the consolidated balance sheets of ATI Technologies Inc. as at August 31, 1997 and 1996 and the consolidated statements of operations and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in Canada, which except as described in note 14 of the notes to the consolidated financial statements, also conform in all material respects with generally accepted accounting principles in the United States.

KPMG

Chartered Accountants
Toronto, Canada
October 10, 1997

Consolidated Statements of Operations and Retained Earnings

Thousands of Canadian dollars, except per share amounts	August 31 1997	 1996
Sales	$ 602,839	$ 466,598
Cost of goods sold	409,153	343,699
Gross margin	193,686	122,899
Expenses		
Selling and marketing	58,936	45,174
Research and development	44,459	27,507
Administrative	21,848	14,933
	125,243	87,614
Income from operations	68,443	35,285
Interest and other income	3,733	3,683
Interest expense	(382)	(179)
Income before income taxes	71,794	38,789
Income taxes (note 9)	24,105	11,442
Net Income	47,689	27,347
Retained Earnings, beginning of year	48,560	21,213
Retained Earnings, end of year	$ 96,249	$ 48,560
Net Income Per Share (note 11)		
Basic	$ 1.00	$ 0.58
Fully diluted	$ 0.94	$ 0.56

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

Thousands of Canadian dollars	August 31 1997	1996
Assets		
Current assets		
Cash and cash equivalents	**$ 71,763**	$ 73,855
Accounts receivable	**113,744**	65,398
Inventories (note 4)	**41,591**	23,681
Prepayments and sundry receivables	**6,072**	5,071
Total current assets	**233,170**	168,005
Long-term portion of investment tax credits	**—**	5,770
Capital assets (note 5)	**31,085**	25,321
Investment in joint venture (note 6)	**27,480**	9,388
Total assets	**$ 291,735**	$ 208,484
Liabilities and Shareholders' Equity		
Current liabilities		
Bank indebtedness (note 7)	**$ —**	$ 10,270
Accounts payable and accrued liabilities	**73,224**	45,615
Income taxes payable	**7,511**	650
Total current liabilities	**80,735**	56,535
Deferred income taxes	**5,000**	3,800
Shareholders' equity		
Share capital (note 8)	**109,751**	99,589
Retained earnings	**96,249**	48,560
Total shareholders' equity	**206,000**	148,149
Total liabilities and shareholders' equity	**$ 291,735**	$ 208,484

See accompanying notes to consolidated financial statements.

K.Y. Ho
Director

Paul Fox
Director

Consolidated Statements of Changes in Financial Position

Thousands of Canadian dollars	August 31 1997	1996
Cash Provided By (Used In)		
Operating activities		
Net income	$ 47,689	$ 27,347
Add items not affecting working capital:		
Deferred income taxes	1,200	600
Depreciation	6,662	5,143
Long-term portion of investment tax credits	5,770	2,063
Net changes in non-cash working capital balances relating to operations:		
Accounts receivable	(48,346)	(7,223)
Inventories	(17,910)	31,286
Prepayments and sundry receivables	(1,001)	(299)
Accounts payable and accrued liabilities	27,609	2,136
Income taxes payable	6,861	450
	28,534	61,503
Financing activities		
Issue of common shares	10,162	1,501
Investing activities		
Additions to capital assets	(12,426)	(8,451)
Investment in joint venture	(18,092)	(9,388)
	(30,518)	(17,839)
Increase in Cash Position	8,178	45,165
Cash Position, Beginning of Year	63,585	18,420
Cash Position, End of Year	$ 71,763	$ 63,585

Cash position is defined as cash and cash equivalents, less bank indebtedness.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

August 31, 1997 and 1996 *(tabular amounts in thousands of Canadian dollars, except per share amounts)*

1. Description of Business

The principal business activities of the Company are the design, manufacture and sale of graphics and multimedia products for personal computers. The Company markets its products to original equipment manufacturers, resellers and distributors primarily in North America, Europe and Asia-Pacific.

2. Significant Accounting Policies

(a) Basis of Presentation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP) and are presented in Canadian dollars. No material differences would result if these consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP), except as disclosed in note 14.

(b) Principles of Consolidation

These consolidated financial statements include the accounts of ATI Technologies Inc. and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

(c) Inventories

Raw materials are stated at the lower of cost and replacement cost. Finished goods and work-in-process are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

(d) Capital Assets

Capital assets are recorded at cost, net of related investment tax credits, and are depreciated at the following rates:

Building	5% diminishing balance
Laboratory and computer equipment	33⅓% diminishing balance
Computer software	50% diminishing balance
Customer owned tooling	straight-line over two years
Production equipment	20% diminishing balance
Office equipment	20% diminishing balance
Leasehold improvements	straight-line over term of lease

The Company regularly reviews the carrying values of its capital assets. If the carrying value of its capital assets exceeds the amount recoverable, a write down is charged to the consolidated statement of operations.

(e) Investment in Joint Venture

The Company's investment in the joint venture is recorded using the cost method.

(f) Investment Tax Credits

Investment tax credits are recorded as a reduction of the related expense or cost of the asset acquired.

(g) Revenue Recognition

Revenue is recognized when goods are shipped to customers. Provision is made for expected sales returns and allowances at the time of shipment.

(h) Foreign Currency Translation

The Company's subsidiaries are accounted for as integrated foreign operations. Transactions of the Company and its subsidiaries originating in foreign currencies are translated into Canadian currency at the prevailing rates approximating those at the date of the transaction. Monetary assets and liabilities are translated at the year-end rate of exchange and non-monetary items are translated at historical exchange rates. The resulting net gain or loss is included in net income for the year.

(i) Research and Development Expenditures

Research costs, other than capital expenditures, are expensed as incurred. Development costs are expensed as incurred unless they meet the criteria under generally accepted accounting principles for deferral and amortization. The Company has not deferred any such development costs to date. Research and development costs are reduced by related investment tax credits.

(j) Income Taxes

The Company provides for income taxes based on accounting income using the deferral method. Under this method, income taxes are computed using current tax rates regardless of when such income is subject to income taxes under tax laws. The deferred tax balances which result are not adjusted for any subsequent changes in income tax rates.

(k) Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from estimates made by management.

3. Financial Instruments

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents and accounts receivable. The Company invests only in high-quality, short-term investments and limits the amount of credit exposure to any one entity. A majority of the Company's receivables are derived from sales to original equipment manufacturers, resellers and distributors in the personal computer industry. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. The Company maintains adequate reserves for potential credit losses as estimated by management.

In the normal course of business, the Company enters into forward foreign exchange contracts to manage its currency risks. As at August 31, 1997, forward foreign exchange contracts to sell US$42 million for Canadian dollars and to purchase 3 million Irish punts using U.S. dollars were outstanding and had an unrealized loss of $210,000. These contracts had remaining terms of one to three months. As at August 31, 1996, forward foreign exchange contracts to purchase 563 million New Taiwanese dollars using U.S. dollars were outstanding and had an unrealized loss of $60,000. These contracts had remaining terms of four to ten months. Unrealized losses represent a point-in-time estimate and reflect the estimated amount that the Company would have been required to pay if forced to settle all outstanding contracts at year end.

The carrying amount of cash and cash equivalents, accounts receivable, sundry receivables, accounts payable and accrued liabilities and income taxes payable approximates fair market value because of the short-term nature of these instruments.

4. Inventories

	1997	1996
Raw materials	$ 25,110	$ 11,667
Work-in-process	10,098	6,854
Finished goods	6,383	5,160
	$ 41,591	$ 23,681

5. Capital Assets

1997	Cost	Accumulated Depreciation	Net Book Value
Land	$ 3,112	$ —	$ 3,112
Building	7,961	1,284	6,677
Laboratory and computer equipment	17,958	9,438	8,520
Computer software	8,979	5,875	3,104
Customer owned tooling	2,304	1,148	1,156
Production equipment	7,778	3,430	4,348
Office equipment	5,564	2,442	3,122
Leasehold improvements	1,179	133	1,046
	$ 54,835	$ 23,750	$ 31,085

1996	Cost	Accumulated Depreciation	Net Book Value
Land	$ 2,363	$ —	$ 2,363
Building	7,271	975	6,296
Laboratory and computer equipment	13,879	7,290	6,589
Computer software	7,096	4,321	2,775
Customer owned tooling	1,479	289	1,190
Production equipment	6,798	2,653	4,145
Office equipment	3,722	1,806	1,916
Leasehold improvements	98	51	47
	$ 42,706	$ 17,385	$ 25,321

The Company has committed to the construction of a new facility in Ireland with an estimated total cost of $6.2 million. This facility, which was under construction at August 31, 1997, is expected to be completed in January 1998. The estimated remaining costs at August 31, 1997 were $4.9 million.

6. Investment in Joint Venture

In 1995, the Company entered into a joint venture agreement with United Microelectronics Corporation (UMC) and other investors to build and operate a semiconductor manufacturing facility in Taiwan. The Company's initial investment commitment of 750 million New Taiwanese Dollars (NTD) entitled the Company to a 5.0% equity interest in the UMC joint venture and the right, but not the obligation, to purchase a portion of the wafer capacity of the new manufacturing facility at fair market prices. The first installment of 187 million NTD, or approximately $9.4 million in Canadian dollars, was paid in January 1996.

In October 1996, the joint venture investors agreed to a 5% reduction in their respective future investment commitments. Accordingly, the Company's remaining investment commitment of 563 million NTD was reduced to 534 million NTD in return for an adjusted equity interest of 4.81%. The Company's rights to a portion of wafer capacity were unaffected by this amendment.

The second installment of 356 million NTD, or approximately $18.1 million in Canadian dollars, was paid in January 1997. The final installment of 178 million NTD is scheduled to be paid in December 1997. In September 1997, the Company purchased U.S. dollar forward exchange contracts to hedge the remaining investment commitment to an equivalent of US$6.2 million.

In October 1997, the semiconductor manufacturing facility, which was in the final phase of construction, was damaged by fire. The damage, which is expected to be covered by the facility's insurance policy, will cause a significant delay in the completion of the facility.

7. Bank Indebtedness

At August 31, 1997 the Company had available short-term bank credit facilities of US$40 million (1996 – US$30 million). These facilities bear interest at a Canadian bank's prime rates and are secured by a general security agreement.

8. Share Capital

Authorized:

Unlimited number of common shares

An unlimited number of preferred shares, ranking in priority upon distribution of assets over common shares, may be issued in series with additional provisions as fixed by the Board of Directors.

Issued and Outstanding:

	Common Shares	
	Number	Amount
Outstanding, August 31, 1995	47,270,000	$ 98,088
Issued for cash	226,185	1,501
Outstanding, August 31, 1996	47,496,185	99,589
Issued for cash	**1,003,352**	**10,162**
Outstanding, August 31, 1997	**48,499,537**	**$ 109,751**

Share Option Plans

Under an option plan in effect prior to November 19, 1993, certain directors, officers and employees were granted options to purchase 719,084 common shares for consideration ranging from $11.00 to $12.60 per share. All of these options had vested by August 1997 and, if not exercised, expire by August 1999.

Upon becoming a public company on November 19, 1993, the Company established a Share Option Plan ("Plan") for the benefit of directors, officers and employees. This Plan, as amended, provides that the aggregate number of common shares available for issuance pursuant to options granted under the Plan and all other share compensation arrangements (including the prior share option plan) is limited to 7,100,000 common shares. In general, the maximum number of common shares reserved for issuance in respect of any one individual may not exceed five percent, and in respect of all insiders of the Company may not exceed ten percent, of the number of common shares issued and outstanding. The maximum number of shares that may be issued to any one insider of the Company, or to all insiders, within a one year period is limited to five percent and ten percent, respectively, of the number of common shares issued and outstanding.

Options are granted under the Plan at the discretion of the Board of Directors at exercise prices determined as the weighted average of the trading prices of the Company's common shares on The Toronto Stock Exchange for the five trading days preceding the effective date of the grant. In general, options granted under the Plan vest over a period of up to four years from the grant date and expire by no later than the sixth anniversary of the date of grant.

Activity in the share option plans is summarized below:

	Options	Option Exercise Price
Options outstanding August 31, 1995	2,165,983	$ 6.50 to $15.90
Granted during fiscal 1996	2,775,250	$ 8.88 to $11.87
Cancelled	(272,738)	$ 6.50 to $15.90
Exercised	(226,185)	$ 6.50 to $ 9.13
Options outstanding August 31, 1996	4,442,310	$ 6.50 to $15.90
Granted during fiscal 1997	**1,870,680**	**$17.48 to $21.47**
Cancelled	**(392,153)**	**$ 6.50 to $17.82**
Exercised	**(1,003,352)**	**$ 6.50 to $15.90**
Options outstanding August 31, 1997	**4,917,485**	**$ 6.50 to $21.47**

9. Income Taxes

The income tax expense in the consolidated statement of operations varies from the amount that would be computed by applying the basic federal and provincial income tax rates to income before income taxes, as shown in the following table:

	1997	1996
Income before income taxes	$ 71,794	$ 38,789
Expected income tax based on combined basic Canadian Federal and Provincial income tax rates	$ 25,896	$ 14,120
Tax effect of:		
Large corporations tax	—	213
Utilization of tax loss-carryforwards of European subsidiary	(101)	(36)
Utilization of Provincial research and development tax incentives	(1,655)	(2,900)
Other	(35)	45
Income tax expense	$ 24,105	$ 11,442

10. Segmented Information

The Company is considered to operate in one industry segment, that being the design, manufacture and sale of graphics and multimedia products for personal computers.

The following information relates to geographic segments of the Company:

	1997
Sales:	
Canada	$ 562,679
Europe	162,060
Geographic transfers	(121,900)
Consolidated sales	$ 602,839
Operating income:	
Canada	$ 63,843
Europe	4,600
Consolidated income from operations	$ 68,443
Identifiable assets:	
Canada	$ 253,349
Europe	38,386
Consolidated total assets	$ 291,735

The Canadian geographic segment includes sales primarily to customers in Canada, the United States and Asia-Pacific. The European geographic segment includes sales primarily to customers in Europe. Geographic transfers represent primarily sales from the Canadian manufacturing facility to the European segment. Intercompany sales are recorded at cost plus a markup for development and manufacturing charges as applicable.

Export sales from operations in Canada, excluding geographic transfers, were $399 million in fiscal 1997. Total export sales for the Company in fiscal 1997, including Europe, were $561 million (1996 – $434 million).

Comparative segmented information for 1996 is not shown because the operation of the European subsidiaries in 1996 did not generate a significant portion of the Company's revenue or employ a significant portion of the Company's identifiable assets.

11. Net Income Per Share

Basic net income per share has been calculated based on the weighted average number of common shares outstanding during the year. Fully diluted net income per share reflects earnings that would have been reported had all options been exercised at the later of the beginning of the year or the option grant date, and includes an allowance for imputed earnings derived from the investment of funds which would have been received.

12. Lease Obligations

The Company is committed to the following minimum lease payments under operating leases for office premises:

1998	$ 1,421
1999	1,354
2000	1,100
2001	944
2002	613
2003 and thereafter	2,797

13. Contingencies

The personal computer industry is characterized by increasingly frequent licensing demands and litigation regarding patent and other intellectual property rights. The Company is involved in various matters of this nature. Although the ultimate outcome of these matters is not presently determinable, at this point in time management believes that the resolution of all such pending matters will not have a material adverse effect on the Company's financial position or results of operations.

14. United States Accounting Principles

The following table reconciles the net income as reported on the consolidated statement of operations prepared in accordance with Canadian GAAP to the consolidated net income that would have been reported had the financial statements been prepared in accordance with U.S. GAAP:

		1997	1996
Net income in accordance with Canadian GAAP		**$ 47,689**	$ 27,347
Adjustment to deferred income taxes (note a)	8	**(160)**	(2,000)
Effect of deferral accounting related to foreign exchange contracts (note b)	6	**(210)**	—
Net income in accordance with U.S. GAAP		**$ 47,319**	$ 25,347
Primary income per share (note c)		**$ 0.96**	$ 0.53
Fully diluted income per share (note c)		**$ 0.95**	$ 0.53

(a) Under Canadian GAAP, income taxes are computed based on accounting income using the deferral method. Under U.S. GAAP, Financial Accounting Standards Board Statement of Financial Accounting Standards No. 109 "Accounting For Income Taxes" (SFAS 109), companies must adopt an asset and liability approach to account for income taxes.

The following is a summary of the components of the deferred tax liability amount calculated in accordance with U.S. GAAP:

	1997	1996
Tax depreciation in excess of accounting depreciation	$ 3,360	$ 2,430
Investment tax credits taxable in future years	4,040	3,330
Share issue costs deductible for tax purposes in future years	(410)	(810)
Accounting provisions not deductible for tax purposes	(2,070)	(1,250)
Other	(160)	(300)
Total	$ 4,760	$ 3,400

The following is a summary of the components of the deferred tax expense amount calculated in accordance with U.S. GAAP:

	1997	1996
Tax depreciation in excess of accounting depreciation	$ 930	$ 610
Investment tax credits taxable in future years	710	480
Share issue costs deducted for tax purposes during the year	400	430
Accounting provisions not deductible for tax purposes	(820)	(400)
Tax losses utilized during the year	140	1,480
Total	$ 1,360	$ 2,600

(b) Under Canadian GAAP, unrealized and realized gains and losses on foreign currency translations identified as hedges may be deferred as long as there is reasonable assurance that the hedge will be effective. Under U.S. GAAP, deferral is allowed only on foreign currency transactions intended to hedge identifiable firm foreign currency commitments.

(c) Under U.S. GAAP, primary and fully diluted earnings per share are computed in accordance with the treasury stock method and are based on the weighted average number of common shares and dilutive common share equivalents.

(d) Additional disclosures as required in accordance with U.S. GAAP are as follows:

(i) Income taxes of $3.0 million were paid during fiscal 1997 (1996 – $2.4 million)

(ii) At August 31, 1997, one customer (1996 – two customers) accounted for more than 10% of the consolidated accounts receivable balance.

(e) The Company accounts for its share options under Canadian GAAP, which, in the Company's circumstances are not materially different from the amounts that would be determined under the provisions of the Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations in accounting for its share option plan. Accordingly, no compensation expense for its share option plan has been recognized or recorded in the consolidated statement of operations for the years ended August 31, 1997

and 1996. Had compensation expense for the Company's share option plans been determined based on the fair value at the grant dates for awards under the Plan consistent with the method prescribed under Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" (SFAS 123), the Company's net income and income per share would have been reported as the pro-forma amounts indicated in the table below:

	1997	1996
Net income in accordance with U.S. GAAP as reported above	$ 47,319	$ 25,347
Pro-forma adjustment for SFAS 123	2,300	1,650
Pro-forma net income	$ 45,019	$ 23,697
Pro-forma primary net income per share	$ 0.91	$ 0.50
Pro-forma fully diluted income per share	$ 0.90	$ 0.50

The weighted average estimated fair value at the date of the grant, as defined by SFAS 123, for options granted in fiscal 1997 and 1996 was $4.26 and $2.06 per share option respectively. The fair value of each option grant was estimated on the date of the grant using the Black-Scholes fair value option pricing model with the following assumptions:

	1997	1996
Risk-free interest rate	3.5%	5.0%
Dividend yield	0.0%	0.0%
Volatility factor of the expected market price of the Company's common shares	30%	30%
Weighted-average expected life of the options	2.4 years	2.3 years

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected price volatility. Because the Company's employee share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee share options.

For the purposes of pro-forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period on a straight-line basis.

15. Reclassification

Certain 1996 figures have been reclassified to conform with 1997 presentation.

Five-Year Historical Review

Thousands of Canadian dollars, except per share amounts and other statistics	**1997**	1996	1995	1994	1993
	Year ended August 31				
Operating Results					
Sales	**$ 602,839**	$ 466,598	$ 359,732	$ 232,280	$ 221,668
Gross margin	**193,686**	122,899	84,233	47,246	71,605
Net income	**47,689**	27,347	15,868	(2,691)	2,729
Operating cash flow	**28,534**	61,503	19,262	(54,935)	(700)
Financial Position					
Cash and cash equivalents	**$ 71,763**	$ 73,855	$ 30,845	$ 29,275	$ —
Total assets	**291,735**	208,484	178,605	146,700	80,381
Bank indebtedness	**—**	10,270	12,425	23,734	14,712
Shareholders' equity	**206,000**	148,149	119,301	103,303	8,045
Working capital	**152,435**	111,470	92,655	75,960	(2,257)
Per Share Data					
Net income per share					
Basic	**$ 1.00**	$ 0.58	$ 0.34	$ (0.06)	n/a
Fully diluted	**$ 0.94**	$ 0.56	$ 0.34	$ (0.06)	n/a
Market price					
High	**$ 23.30**	$ 12.85	$ 10.88	$ 19.88	n/a
Low	**$ 10.80**	$ 8.75	$ 4.55	$ 5.00	n/a
Close	**$ 23.30**	$ 11.00	$ 9.00	$ 5.13	n/a
Other					
Total number of employees	**1,074**	757	669	594	502
Number of employees in R&D	**473**	303	251	204	181
Shares outstanding					
End of year	**48,499,537**	47,496,185	47,270,000	47,250,000	n/a
Weighted average	**47,893,332**	47,394,245	47,257,167	46,041,667	n/a

ATI became a public company on November 19, 1993 therefore certain financial information prior to that date is not applicable.

Quarterly Information

Thousands of Canadian dollars, except per share amounts (unaudited)	November 30		February 28/29		May 31		August 31	
	1996	1995	**1997**	1996	**1997**	1996	**1997**	1996
Sales	**$164,068**	$119,339	**$151,460**	$115,877	**$135,050**	$115,138	**$152,261**	$116,244
Cost of goods sold	**116,427**	90,071	**105,267**	86,283	**89,601**	83,638	**97,858**	83,707
Gross margin	**47,641**	29,268	**46,193**	29,594	**45,449**	31,500	**54,403**	32,537
Expenses								
Selling and marketing	**13,203**	9,545	**13,781**	8,969	**13,949**	12,811	**18,003**	13,849
Research and development	**9,436**	6,695	**10,251**	6,902	**11,038**	7,142	**13,734**	6,768
Administrative	**4,831**	3,197	**5,035**	4,536	**5,357**	3,228	**6,625**	3,972
	27,470	19,437	**29,067**	20,407	**30,344**	23,181	**38,362**	24,589
Income from operations	**20,171**	9,831	**17,126**	9,187	**15,105**	8,319	**16,041**	7,948
Interest and other income/(loss)	**(73)**	359	**1,953**	843	**1,014**	1,606	**839**	875
Interest expense	**(18)**	(25)	**(202)**	(65)	**(158)**	(40)	**(4)**	(49)
Income before income taxes	**20,080**	10,165	**18,877**	9,965	**15,961**	9,885	**16,876**	8,774
Income taxes	**7,028**	3,355	**6,418**	3,288	**5,427**	2,767	**5,232**	2,032
Net Income	**13,052**	6,810	**12,459**	6,677	**10,534**	7,118	**11,644**	6,742
Retained Earnings, beginning of period	**48,560**	21,213	**61,612**	28,023	**74,071**	34,700	**84,605**	41,818
Retained Earnings, end of period	**$ 61,612**	$ 28,023	**$ 74,071**	$ 34,700	**$ 84,605**	$ 41,818	**$ 96,249**	$ 48,560
Net Income Per Share								
Basic	**$0.27**	$0.14	**$0.26**	$0.14	**$0.22**	$0.15	**$0.25**	$0.15
Fully diluted	**$0.26**	$0.14	**$0.24**	$0.14	**$0.21**	$0.14	**$0.23**	$0.14

Certain fiscal 1996 figures have been reclassified to conform with 1997 presentation.

Corporate Governance

The Toronto Stock Exchange (the "TSE") has guidelines for effective corporate governance (the "TSE Guidelines") addressing matters such as the constitution of and functions to be performed by the Board of Directors and its committees. The TSE requires that each listed corporation disclose its approach to corporate governance with reference to these guidelines on an annual basis.

Board Mandate

The Company's Board of Directors is ultimately responsible for supervising the management of the business and affairs of the Company and to act in the best interests of the Company. The Board of Directors discharges its responsibility directly and through the Audit Committee and Compensation Committee. The Board of Directors meets regularly to review the business operations and financial results of the Company. Meetings of the Board of Directors include regular meetings with management to discuss specific aspects of the operations of the Company. There were six meetings of the Board of Directors held during fiscal 1997.

Specific responsibilities of the Board of Directors include:

- Reviewing and approving the Company's strategic and operating plans;
- Reviewing and approving the Company's capital expenditure policy as well as those expenditures which exceed the limits for management approval;
- Reviewing and approving significant operational and financial matters and providing direction to management on these matters;
- Reviewing and approving corporate objectives and goals applicable to the senior management personnel of the Company; and
- Involvement in the hiring and replacement of the senior management of the Company.

Board Composition

At the start of fiscal 1997 the Board of Directors was composed of five members of which two were outside and "unrelated" directors within the meaning of the TSE Guidelines.

An "unrelated" director, under the TSE Guidelines, is a director who is independent of management and is free from any interest in any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the Company, other than interests and relationships arising from shareholding. Applying that definition rigorously to fiscal 1997, the Company had two unrelated directors for all of fiscal 1997. Currently, the two unrelated directors are Mr. Horn and Mr. Fleck. Mr. Fox is an outside director but not unrelated as a result of the continuing legal services he provides to the Company.

The Company believes that the investments of minority shareholders in the Company is fairly reflected in the composition of the Board of Directors since two of the five directors during all of fiscal 1997 were unrelated.

The Board does not have a Chairman separate from management. When required, the Board of Directors functions independent of management by referring matters to an independent committee having a majority of members who are unrelated directors and by holding meetings without management present.

Board Committees

For all of fiscal 1997, each of the Audit Committee and the Compensation Committee were composed of three outside directors of which two were unrelated directors, consistent with the TSE Guidelines.

The Audit Committee met four times during the year to review the interim and annual financial statements and to make recommendations to the Board of Directors. When required, the Audit Committee meets directly with the auditors of the Company. The Audit Committee also makes recommendations as to the implementation and operation of internal control and financial reporting systems.

The Compensation Committee is involved with all compensation issues regarding directors and senior management of the Company, including establishing the remuneration of the President and CEO and all senior management who report directly to the President and CEO, reviewing and making recommendations concerning the operation of the Company's Stock Option Plan and Stock Purchase Plan and reporting to shareholders concerning executive compensation.

Investor Relations

The Company has an Investor Relations department responsible for liaising with investors and receiving shareholder feedback and comments. The Company believes that in this manner shareholder concerns are dealt with appropriately when they arise.

Other Matters

Although neither a corporate governance committee nor a nominating committee has yet been formed, the Board of Directors and its committees had, and continue to have, responsibility for nominating new directors, assessing the effectiveness of the Board as a whole and the contribution of individual directors, reviewing the adequacy and form of compensation of directors, providing an orientation and education program for new recruits to the Board and approving requests of directors to engage outside advisors at the expense of the Company.

Directors and Officers

Board of Directors

Alan Horn ○△
Vice President, Finance and Chief Financial Officer, Rogers Communications Inc.

Jim Fleck ○△
Faculty of Management, University of Toronto

K.Y. Ho
President and Chief Executive Officer, ATI Technologies Inc.

Lee Lau
Vice President, Strategic Planning, ATI Technologies Inc.

Paul Fox ○△
Barrister & Solicitor

○ Member of the Audit Committee
△ Member of the Compensation Committee

Corporate Officers

K.Y. Ho
President and CEO

Adrian Hartog
Vice President, Engineering

Benny Lau
Vice President, Product Planning

Ed Grondahl
Vice President, Product Marketing

Henry Quan
Vice President, Corporate Marketing

Jim Chwartacky
Vice President, Finance and Administration and CFO

Lee Lau
Vice President, Strategic Planning

Tom Ward
Vice President, Distribution Sales

Dean Blain
Corporate Secretary

International Officers

Gerd Queisser
Vice President, European Operations

Noboru Mayuzumi
President, ATI, Japan

Patrick Redmond
General Manager, ATI, Ireland

Vincent Win
Vice President, Strategic Sales and Business Development

Biographies

Jim Fleck
Jim Fleck teaches at the Faculty of Management, University of Toronto. Until August 1994, he was Chairman and CEO of Fleck Manufacturing Inc. with plants in Canada, Mexico and the USA. He was Chairman of Alias Research Inc. from 1992 to 1995 and Director of CUC Ltd. until May 1995. Mr. Fleck also serves on a number of public and private company boards.

Paul Fox
Paul Fox has operated his legal practice as a sole practitioner since 1992. Prior to that time Mr. Fox was a partner of Smith Lyons, a major law firm in Toronto. Mr. Fox has provided legal services to ATI since 1987.

K.Y. Ho
K.Y. Ho is one of the founders of ATI. Mr. Ho, an Electrical Engineer, has more than 20 years experience in the management, engineering, manufacturing and material and quality control areas of the computer industry. Mr. Ho previously worked at several leading computer manufacturers in Hong Kong.

Alan Horn
Alan Horn became a director of ATI in November 1993. He is Vice President, Finance and Chief Financial Officer of Rogers Communications Inc. A Chartered Accountant, who was previously a tax partner with KPMG, Mr. Horn also serves on a number of public and private company boards.

Lee Lau
Lee Lau is one of the founders of ATI. Mr. Lau is a Professional Engineer who has worked in the computer industry for over 12 years. Prior to ATI, Mr. Lau held the position of Design Engineer with Mitel and ESE Systems.

Corporate Information

All Inquiries for Financial Information Should be Directed to:

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Tokyo 102, Japan
Telephone: 81-3-5275-2241
Facsimile: 81-3-5275-2242

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held on Thursday, January 15th, 1998 at 2:00 p.m. at the Design Exchange, located at 234 Bay Street, Toronto-Dominion Centre, Toronto, Ontario M5K 1B2. All shareholders and others interested in the Company are invited to attend.

Listing of Common Shares

The common shares of the Company are listed on The Toronto Stock Exchange under the stock symbol "ATY".

Auditors

KPMG
Chartered Accountants
Suite 3300, Commerce Court West
P.O. Box 31, Station Commerce Court
Toronto, Ontario
Canada M5L 1B2

Bankers

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1940 Eglinton Avenue East
Scarborough, Ontario
Canada M1L 4R2

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CIBC Mellon Trust Company
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Legal Counsel

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Barristers and Solicitors
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Paul D. Fox
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